

POCAHONTAS COMMUNITY HOSPITAL

**INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2014 AND 2013

POCAHONTAS COMMUNITY HOSPITAL

CONTENTS

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
HOSPITAL FINANCIAL STATEMENTS:	
Statements of Net Position	4
Statements of Revenues, Expenses and Changes in Net Position	5
Statements of Cash Flows	6
FOUNDATION FINANCIAL STATEMENTS:	
Balance Sheets	8
Statements of Revenues, Expenses, and Changes in Net Position	9
Statements of Cash Flows	10
NOTES TO FINANCIAL STATEMENTS	11
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule	25
COMMENTS AND RECOMMENDATIONS:	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	26
Schedule of Findings	28

POCAHONTAS COMMUNITY HOSPITAL
Officials
June 30, 2014

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
CITY COUNCIL		
Richard Gruber	Mayor	December, 2015
Gus Holzmuehler	Member	December, 2015
Brian Stover	Member	December, 2015
John DeWall	Member	December, 2017
Brooke McCartan	Member	December, 2017
Rod Stoullil	Member	December, 2017
Jeffrey A. Johnson	City Treasurer	Appointed Annually

HOSPITAL BOARD OF TRUSTEES

Rick Winegarden	President	December, 2015
James O'Neal (Resigned June, 2014)	Vice-President	--
Greg White (Appointed July, 2014)	Vice-President	December, 2015
Jody Lyon	Secretary-Treasurer	December, 2017
Don Beneke	Member	December, 2015
Kim Wood	Member	December, 2015

HOSPITAL OFFICIALS

James Roetman	Chief Executive Officer
Lynne Raveling	Chief Financial Officer
Susie Aden	Director of Patient Care
Jenny Benna	Director of Outpatient Services

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Pocahontas Community Hospital
Pocahontas, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Pocahontas Community Hospital (Hospital) and its discretely presented component unit, Pocahontas Community Healthcare Foundation (Foundation) as of June 30, 2014 and 2013 and the related notes to the financial statements, which collectively comprise the Hospital's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees
Pocahontas Community Hospital

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion - Hospital

The financial statements do not include an estimate of an Other Post Employment Benefits (OPEB) liability for an implicit health insurance premium rate subsidy resulting from the legal requirement to allow employees retiring after age 55 to remain on the Hospital's healthcare plan until age 65. Accounting principles generally accepted in the United States of America require that any material liability resulting from this OPEB requirement be included in the financial statements (Note L).

Qualified Opinion - Hospital

In our opinion, except for the effect of not including an estimated OPEB liability for the implicit health insurance premium rate subsidy referred to in the previous paragraph, the financial statements referred to above present fairly in all material respects, the financial position of Pocahontas Community Hospital as of June 30, 2014 and 2013 and the results of its operations, changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinion - Foundation

In our opinion the financial statements (Foundation) referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2014 and 2013 and the results of its operations, changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As discussed in Note N to the financial statements, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34*, during the year ended June 30, 2014. The adoption of GASB Statement No. 61 resulted in reporting the Foundation as a discretely presented component unit rather than a blended component unit as was previously presented in the 2013 financial statements. Accordingly, amounts have been restated in the 2013 financial statements now presented.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 3 through 3d and on page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Trustees
Pocahontas Community Hospital

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 13, 2014 on our consideration of Pocahontas Community Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Gronewold, Bell, Kyhn + Co. P.C.
Atlantic, Iowa
August 13, 2014



**Pocahontas Community Hospital
Management's Discussion and Analysis**

Our discussion and analysis of Pocahontas Community Hospital's (Hospital) financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2014, 2013, and 2012. Please read it in conjunction with the Hospital's financial statements.

FINANCIAL HIGHLIGHTS

The Hospital's net position decreased in 2014 and increased in 2013 with a \$534,115 or 6.3% decrease in 2014 and an \$8,053 or 0.10% increase in 2013.

The Hospital reported an operating loss of \$443,671 in 2014 and \$50,742 in 2013.

Non-operating revenues, net decreased by \$140,468 in 2014 as a result of a \$114,394 increase in interest expense. The nonoperating revenues, net increased by \$5,407 in 2013.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

**THE STATEMENTS OF NET POSITION AND STATEMENTS OF REVENUES,
EXPENSES, AND CHANGES IN NET POSITION**

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's net position - the difference between the combined assets and deferred outflows of resources and the combined liabilities and deferred inflows of resources - is one way to measure the Hospital's financial health, or financial position. Other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors need to be considered in assessing the overall health of the Hospital.

THE STATEMENTS OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities.

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

THE HOSPITAL'S NET POSITION

The Hospital's net position is the difference between its assets and combined liabilities and deferred inflows of resources reported in the Statement of Net Position on page 4 as you can see from Table 1.

Table 1: Assets, Liabilities, Deferred Inflows of Resources, and Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Current assets	\$ 3,421,808	\$ 3,623,918	\$ 3,153,486
Capital assets, net	9,991,495	10,813,986	7,052,261
Other assets, net	<u>180,466</u>	<u>89,078</u>	<u>316,693</u>
Total assets	<u>\$ 13,593,769</u>	<u>\$ 14,526,982</u>	<u>\$ 10,522,440</u>
Liabilities:			
Long-term debt, less current maturities	\$ 3,835,212	\$ 4,142,287	\$ 686,263
Other current and noncurrent liabilities	<u>1,187,552</u>	<u>1,929,575</u>	<u>1,389,110</u>
Total liabilities	<u>\$ 5,022,764</u>	<u>\$ 6,071,862</u>	<u>\$ 2,075,373</u>
Deferred Inflows of Resources	<u>\$ 650,000</u>	<u>\$ --</u>	<u>\$ --</u>
Net Position:			
Invested in capital assets	\$ 5,758,621	\$ 5,403,130	\$ 5,770,185
Restricted expendable assets	12,265	--	--
Unrestricted	<u>2,150,119</u>	<u>3,051,990</u>	<u>2,676,882</u>
Total net position	<u>\$ 7,921,005</u>	<u>\$ 8,455,120</u>	<u>\$ 8,447,067</u>

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

In 2014, the Hospital's net position decreased by \$534,115 or 6.3%, as shown in Table 2. This compares with the 0.10% increase in net position of \$8,053 for 2013.

Net patient service revenue decreased \$4,093 or 0.04% in 2014 compared to a decrease of \$4,744 or .05% in 2013.

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

Table 2: Operating Results and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenues:			
Net patient service revenues	\$ 9,452,469	\$ 9,456,562	\$ 9,461,306
Other operating revenues	<u>182,523</u>	<u>130,671</u>	<u>109,769</u>
Total operating revenues	9,634,992	9,587,233	9,571,075
Operating Expenses:			
Nursing service	1,758,004	1,614,649	1,592,524
Other professional service	4,119,253	4,202,245	4,353,300
General service	824,900	793,422	711,728
Fiscal and administrative service	2,188,841	2,132,426	1,984,032
Provision for depreciation	<u>1,187,665</u>	<u>895,233</u>	<u>664,131</u>
Total operating expenses	10,078,663	9,637,975	9,305,715
Operating income (loss)	(443,671)	(50,742)	265,360
Non-Operating Revenues and Expenses:			
Noncapital gifts, grants and bequests	53,981	70,766	59,853
Investment income	3,242	4,430	11,596
Ambulance subsidy	7,436	7,082	7,082
Interest expense	(164,433)	(50,039)	(29,822)
Clinic operations, net	(1,053)	5,520	(2,115)
Loss on disposal of equipment	<u>(1,882)</u>	<u>--</u>	<u>(14,242)</u>
Non-operating revenues, net	(102,709)	37,759	32,352
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions	(546,380)	(12,983)	297,712
Capital Grants and Contributions	<u>12,265</u>	<u>21,036</u>	<u>28,496</u>
Increase (Decrease) in Net Position	(534,115)	8,053	326,208
Net Position Beginning of Year	<u>8,455,120</u>	<u>8,447,067</u>	<u>8,120,859</u>
Net Position End of Year	<u>\$ 7,921,005</u>	<u>\$ 8,455,120</u>	<u>\$ 8,447,067</u>

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

OPERATING INCOME

The first component of the overall change in the Hospital's net position is its operating income, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. Operating income decreased from a loss of \$50,742 in 2013 to an operating loss of \$443,671 in 2014.

The primary components of this decrease in operating income are:

Net patient revenue decreased \$4,093. Contributing to this decrease in net patient revenue is a 2% decrease in net Medicare payments due to the government imposed sequestration. This resulted in \$79,122 reduction in net revenue. Medicare Cost Reporting items currently in dispute resulted in a reduction of reimbursable costs. This reduction had a negative impact on operating income of approximately \$200,000.

The increase in depreciation expense related to the completion of the building project and the implementation of the new electronic health record in the third quarter of 2013 resulted in a depreciation expense increase of \$292,432 or 33% in 2014 compared to 2013, and an increase of \$523,534 or 79% compared to 2012.

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of contributions, interest revenue and investment earnings and a county subsidy for providing ambulance services. Interest revenue decreased from \$4,430 in 2013 to \$3,242 in 2014. This decrease is the result of declining interest rates received on investments over the past year and declining investments due to the previous use of investment funds toward the costs of the construction project.

The major nonoperating expense is interest on debt. After the completion of the construction program in late 2013, the Hospital began to report the full amount of the interest cost as an expense, resulting in the \$114,394 increase in 2014.

GRANTS AND CONTRIBUTIONS

The Hospital received \$21,707 in grant funds through the SHIP, FLEX and HPP grant programs in 2014.

The Pocahontas Community Hospital Healthcare Foundation was formed for the purpose of raising funds for the benefit of the Hospital. The Foundation conducts an annual campaign to raise funds for specified equipment for the hospital. The Foundation is also the conduit for the funds from the annual Hospice fund drive.

THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating revenues and nonoperating revenues and expenses as discussed earlier.

Pocahontas Community Hospital
Management's Discussion and Analysis - Continued

BUDGETARY HIGHLIGHTS

The official budget of the Hospital for the year ended June 30, 2014 was prepared on an accrual basis. Actual expenditures were lower than the budget by \$1,506,904 due to lower than expected patient services costs, related supply costs and contracted services costs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2014, the Hospital had \$46,190 invested in non-depreciable capital assets. In 2014, the Hospital purchased new equipment costing \$189,627 including a new telemetry system and new PACS system. The Hospital completed the remainder of the building project resulting in an increase in capital buildings of \$143,739.

Debt:

At year-end, the Hospital had \$4,129,697 in debt outstanding. The debt included two non-interest bearing notes through the City of Pocahontas (who received two \$360,000 USDA grants as funding). At year end, the outstanding balances on the two loans were \$51,428 and \$312,857. In 2012 the City of Pocahontas signed a \$4,000,000 promissory note on behalf of the Hospital for the current construction project. At June 30, 2013 the Hospital had drawn all of the funds.

OTHER ECONOMIC FACTORS

The continued declining population and limited employment opportunities has resulted in a higher than normal self pay percentage of patient accounts. However, though many may qualify for financial assistance, the return rate for completed financial assistance applications is down significantly from the prior year. The Hospital granted only \$6,003 in charity care compared to \$17,101 in 2013.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer, Pocahontas Community Hospital, 606 NW 7th St., Pocahontas, Iowa 50574.

POCAHONTAS COMMUNITY HOSPITAL
Statements of Net Position
June 30,

ASSETS

	<u>2014</u>	<u>2013</u> <u>As Restated</u>
Current Assets:		
Cash	\$ 1,422,779	\$ 1,089,147
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$199,000 in 2014, \$450,000 in 2013)	1,379,058	1,406,620
Other receivables	12,781	28,580
Inventory	108,128	110,426
Prepaid expense	101,400	93,973
Estimated third party payor settlements	--	473,000
Internally designated assets	<u>397,662</u>	<u>422,172</u>
Total current assets	3,421,808	3,623,918
Designated and Restricted Assets:		
Internally designated assets	455,666	422,172
Restricted assets	<u>12,265</u>	<u>--</u>
	467,931	422,172
Less amounts required to meet current liabilities	<u>397,662</u>	<u>422,172</u>
	70,269	--
Capital Assets:		
Depreciable capital assets, net	9,945,305	10,801,486
Non-depreciable capital assets	<u>46,190</u>	<u>12,500</u>
	9,991,495	10,813,986
Other Assets	<u>110,197</u>	<u>89,078</u>
Total assets	<u>\$ 13,593,769</u>	<u>\$ 14,526,982</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013 As Restated</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 294,485	\$ 303,976
Accounts payable	304,197	1,220,397
Accrued employee compensation	310,190	304,806
Other accrued expenses	90,680	87,948
Accrued interest	--	12,448
Estimated third-party payor settlements	188,000	--
Total current liabilities	<u>1,187,552</u>	<u>1,929,575</u>
Long-Term Debt, less current maturities	<u>3,835,212</u>	<u>4,142,287</u>
Total liabilities	<u>5,022,764</u>	<u>6,071,862</u>
Deferred Inflow of Resources:		
Deferred cost reimbursement	650,000	--
Net Position:		
Invested in capital assets, net of related debt	5,758,621	5,403,130
Restricted - expendable	12,265	--
Unrestricted	<u>2,150,119</u>	<u>3,051,990</u>
	<u>7,921,005</u>	<u>8,455,120</u>
 Total liabilities and net position	 <u>\$ 13,593,769</u>	 <u>\$ 14,526,982</u>

POCAHONTAS COMMUNITY HOSPITAL
Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30,

	<u>2014</u>	<u>2013</u> <u>As Restated</u>
Revenue:		
Net patient service revenue	\$ 9,452,469	\$ 9,456,562
Other revenue	<u>182,523</u>	<u>130,671</u>
Total revenue	9,634,992	9,587,233
Expenses:		
Nursing service	1,758,004	1,614,649
Other professional service	4,119,253	4,202,245
General service	824,900	793,422
Fiscal and administrative service	2,188,841	2,132,426
Provision for depreciation	<u>1,187,665</u>	<u>895,233</u>
Total expenses	<u>10,078,663</u>	<u>9,637,975</u>
Operating Loss	(443,671)	(50,742)
Non-Operating Revenues (Expenses):		
Noncapital gifts, grants and bequests	53,981	70,766
Investment income	3,242	4,430
Ambulance subsidy	7,436	7,082
Interest expense	(164,433)	(50,039)
Clinic operations, net	(1,053)	5,520
Loss on disposal of equipment	<u>(1,882)</u>	<u>--</u>
Non-operating revenues, net	<u>(102,709)</u>	<u>37,759</u>
Excess of Expenses Over Revenues Before Capital Grants and Contributions	(546,380)	(12,983)
Restricted Revenue:		
Capital grants and contributions	<u>12,265</u>	<u>21,036</u>
Increase (Decrease) in Net Position	(534,115)	8,053
Net Position Beginning of Year	<u>8,455,120</u>	<u>8,447,067</u>
Net Position End of Year	<u>\$ 7,921,005</u>	<u>\$ 8,455,120</u>

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HOSPITAL
Statements of Cash Flows
Year ended June 30,

	<u>2014</u>	<u>2013</u> <u>As Restated</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 10,806,830	\$ 9,024,984
Cash paid to suppliers	(5,590,448)	(5,435,571)
Cash paid to employees	(3,337,640)	(3,233,818)
Other operating revenue	<u>182,523</u>	<u>130,671</u>
Net cash provided by operating activities	2,061,265	486,266
Cash flows from non-capital financing activities:		
Gifts, grants and bequests	37,315	50,516
Ambulance subsidy	<u>7,436</u>	<u>7,082</u>
Net cash provided by non-capital financing activities	44,751	57,598
Cash flows from capital and related financing activities:		
Capital expenditures	(1,228,472)	(4,063,469)
Capital grants and contributions	12,265	21,036
Debt proceeds	--	3,760,000
Principal paid on long-term debt	(316,566)	(224,709)
Interest paid	<u>(160,215)</u>	<u>(17,363)</u>
Net cash used in capital and related financing activities	(1,692,988)	(524,505)
Cash flows from investing activities:		
Change in designated and restricted assets	(36)	393,056
Investment income	3,242	4,430
Clinic operations, net	(1,053)	5,520
Other asset changes	<u>(35,826)</u>	<u>(6,851)</u>
Net cash provided by (used in) investing activities	(33,673)	396,155
Net increase in cash and cash equivalents	379,355	415,514
Cash and cash equivalents beginning of year	<u>1,124,477</u>	<u>708,963</u>
Cash and cash equivalents end of year	<u>\$ 1,503,832</u>	<u>\$ 1,124,477</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash in current assets	\$ 1,422,779	\$ 1,089,147
Cash and cash equivalents in designated and restricted assets	<u>81,053</u>	<u>35,330</u>
Total cash and cash equivalents	<u>\$ 1,503,832</u>	<u>\$ 1,124,477</u>

(continued next page)

POCAHONTAS COMMUNITY HOSPITAL
Statements of Cash Flows - Continued
Year ended June 30,

	<u>2014</u>	<u>2013</u> <u>As Restated</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$(443,671)	\$(50,742)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	1,187,665	895,233
Amortization	14,707	16,680
Change in assets and liabilities		
Accounts receivable	43,361	206,422
Inventory	2,298	(4,890)
Prepaid expense	(7,427)	41,280
Accounts payable - trade	(54,784)	(13,966)
Accrued employee compensation	5,384	24,388
Other accrued expenses	2,732	9,861
Estimated third-party payor settlements	661,000	(638,000)
Deferred cost reimbursement	650,000	--
Total adjustments	<u>2,504,936</u>	<u>537,008</u>
Net cash provided by operating activities	<u>\$ 2,061,265</u>	<u>\$ 486,266</u>

The Hospital also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of operating loss to net cash provided by operating activities:

	<u>2014</u>	<u>2013</u>
Interest imputed on loans and recorded as a gift	<u>\$ 16,666</u>	<u>\$ 20,250</u>

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HEALTHCARE FOUNDATION
Balance Sheets
June 30,

ASSETS

	<u>2014</u>	<u>2013 As Restated</u>
Assets:		
Cash	\$ 49,876	\$ 55,199
Certificate of deposit	<u>45,078</u>	<u>46,827</u>
Total assets	<u>\$ 94,954</u>	<u>\$ 102,026</u>

NET ASSETS

Net Assets:		
Restricted	\$ 57,779	\$ 62,081
Unrestricted	<u>37,175</u>	<u>39,945</u>
Total liabilities and net position	<u>\$ 94,954</u>	<u>\$ 102,026</u>

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HEALTHCARE FOUNDATION
Statements of Activities and Changes in Net Assets
Year ended June 30,

	<u>2014</u>	<u>2013</u> <u>As Restated</u>
Revenues and Other Support:		
Unrestricted contributions	\$ 37,888	\$ 40,328
Restricted contributions	95,830	104,375
Investment income	<u>214</u>	<u>246</u>
Total revenues and other support	133,932	144,949
Expenses:		
Supplies and other expense	39,619	41,947
Administration and fundraising	10,283	9,227
Scholarships	6,600	2,400
Transfers to Pocahontas Community Hospital	41,169	45,650
Physician recruiting	<u>43,333</u>	<u>40,000</u>
Total expenses	<u>141,004</u>	<u>139,224</u>
Operating Income (Loss) and Change in Net Assets	(7,072)	5,725
Net Assets Beginning of Year	<u>102,026</u>	<u>96,301</u>
Net Assets End of Year	<u>\$ 94,954</u>	<u>\$ 102,026</u>

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HEALTHCARE FOUNDATION
Statements of Cash Flows
Year ended June 30,

	<u>2014</u>	<u>2013</u> <u>As Restated</u>
Cash flows from operating activities:		
Cash received through contributions	\$ 133,718	\$ 144,703
Cash paid to suppliers and Hospital	(141,004)	(139,224)
Net cash provided by (used in) operating activities	(7,286)	5,479
Cash flows from investing activities:		
Interest income	<u>214</u>	<u>246</u>
Net increase (decrease) in cash and cash equivalents	(7,072)	5,725
Cash and cash equivalents beginning of year	<u>102,026</u>	<u>96,301</u>
Cash and cash equivalents end of year	<u>\$ 94,954</u>	<u>\$ 102,026</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$(7,072)	\$ 5,725
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Interest income	<u>(214)</u>	<u>(246)</u>
Net cash provided by (used in) operating activities	<u>\$(7,286)</u>	<u>\$ 5,479</u>

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

The organization includes a hospital foundation and a 25 bed critical access acute care municipal hospital with related healthcare ancillary and outpatient services. Pocahontas Community Hospital (Hospital) is organized under Chapter 392 of the Code of Iowa; accordingly, it is a political subdivision of the State of Iowa and is therefore exempt from federal and state income taxes. It is governed by a five member board of trustees, elected for four year terms. In addition, the City Treasurer is considered to be a Co-Treasurer of the Board. The Hospital, a component unit of the City of Pocahontas, has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital.

The Pocahontas Community Healthcare Foundation (Foundation) has been identified as a legally separate component unit of the Hospital, and accordingly, the financial statements of the Foundation have been included as a discretely presented component unit on pages 8 through 10. The Foundation is a not-for-profit corporation exempt from income tax under Section 501 of the Internal Revenue Code. It was established to provide financial support to the Hospital.

Separate financial statements of the Hospital have been issued which do not include the discretely presented financial statements of the Foundation.

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less including designated and restricted assets.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of three years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and three to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital capitalized interest cost of \$ - 0 - in 2014 (\$71,990 in 2013).

9. Compensated Absences

Hospital employees earn vacation days at varying rates depending on years of service. Vacation time accumulates to a maximum of 200 hours. Any excess over 200 hours accumulated by the employee's anniversary date is lost. The computed amount of vacation benefits earned by year end is recorded as part of accrued employee compensation. Employees also earn sick leave benefits based on varying rates depending on years of service. Employees may accumulate sick leave up to a specified maximum. Employees are not paid for accumulated sick leave if employment is ended.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

POCAHONTAS COMMUNITY HOSPITAL

Notes to Financial Statements

June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

13. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

14. Net Position

Net position of the Hospital is reported in the following three categories. *Invested in capital assets net of related debt* consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* consists of noncapital assets that must be used for a particular purpose, or permanent endowments, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net position* consists of the remaining net position that does not meet the definition of *invested in capital assets net of related debt or restricted*.

15. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

16. Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68 "*Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27.*" This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the Hospital's proportionate share of the Iowa Public Employees Retirement System pension plan.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient acute services, inpatient nonacute services, and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2012. The Medicaid cost reports have been finalized through June 30, 2011. However, finalized cost reports are subject to re-opening by the intermediary within three years after the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates and discounts from established charges.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE C - RESTRICTED NET POSITION - FOUNDATION

Restricted expendable assets are available for the following purposes:

	<u>2014</u>	<u>2013</u>
<u>Hospital</u>		
Capital items	\$ 12,265	\$ --
<u>Foundation</u>		
Capital items	\$ 13,096	\$ 17,159
Hospice services	38,116	38,951
Scholarships	2,500	4,850
Physician recruitment	3,248	1,121
Other	819	--
Total restricted expendable net position	\$ 57,779	\$ 62,081

Restricted nonexpendable net position represents the principal amounts of permanent endowments, restricted to investment in perpetuity. The Hospital had no permanent endowments as of June 30, 2014 and 2013.

NOTE D - DONOR RESTRICTIONS RELEASED

Restricted assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	<u>2014</u>	<u>2013</u>
<u>Hospital</u>		
Capital items	\$ --	\$ 21,036
<u>Foundation</u>		
Purpose of Restrictions Accomplished:		
Capital items	\$ 17,788	\$ 8,752
Hospice costs	31,510	32,573
Scholarships	6,600	2,400
Physician recruitment	43,334	40,000
Other	900	2,132
	\$ 100,132	\$ 85,857

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE E - DESIGNATED ASSETS

Of the \$2,150,119 (\$3,051,990 as of June 30, 2013) of unrestricted net position as of June 30, 2014, \$455,666 (\$422,172 for 2013) has been designated by the Hospital's Board of Trustees for capital acquisitions, debt principal payments, and endowments. These assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

NOTE F - DEPOSITS AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The composition of designated and restricted assets is as follows:

	<u>2014</u>	<u>2013</u>
Internally Designated Assets:		
Capital Improvements and Debt Payments:		
Cash and cash equivalents	\$ 68,788	\$ 35,330
Interest receivable	393	339
Due to City	(13,515)	(13,497)
Hospital designated endowments:		
Certificates of deposit	<u>400,000</u>	<u>400,000</u>
	<u>\$ 455,666</u>	<u>\$ 422,172</u>
Restricted Assets:		
Cash	<u>\$ 12,265</u>	<u>\$ --</u>

The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE G - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2014 and 2013, was as follows:

	2014	2013
Receivable From:		
Patients	\$ 542,422	\$ 868,788
Medicare	408,587	385,440
Medicaid	62,472	65,604
Blue Cross	380,469	277,270
Workers Compensation	27,659	21,863
Others	156,449	237,655
	<u>1,578,058</u>	<u>1,856,620</u>
Less allowances for doubtful accounts and contractual adjustments	<u>199,000</u>	<u>450,000</u>
	<u>\$ 1,379,058</u>	<u>\$ 1,406,620</u>

NOTE H - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2014 and 2013 were as follows:

Cost	Balance 2013	Additions	Disposals	Balance 2014
Land Improvements	\$ 213,837	\$ --	\$ --	\$ 213,837
Buildings	12,608,054	143,739	--	12,751,793
Fixed Equipment	686,880	6,600	--	693,480
Major Movable Equipment	<u>4,572,992</u>	<u>183,027</u>	<u>139,259</u>	<u>4,616,760</u>
	18,081,763	333,366	139,259	18,275,870
<u>Depreciation</u>				
Land Improvements	144,032	5,989	--	150,021
Buildings	3,975,141	518,819	--	4,493,960
Fixed Equipment	400,199	43,504	--	443,703
Major Movable Equipment	<u>2,760,905</u>	<u>619,353</u>	<u>137,377</u>	<u>3,242,881</u>
Total Depreciation	<u>7,280,277</u>	<u>1,187,665</u>	<u>137,377</u>	<u>8,330,565</u>
Depreciable Capital Assets, Net	<u>\$ 10,801,486</u>	<u>\$(854,299)</u>	<u>\$(1,882)</u>	<u>\$ 9,945,305</u>
Non-Depreciable Capital Assets:				
Land	\$ 12,500	\$ 9,690	\$ --	\$ 22,190
Construction in Progress	<u>--</u>	<u>24,000</u>	<u>--</u>	<u>24,000</u>
	<u>\$ 12,500</u>	<u>\$ 33,690</u>	<u>\$ --</u>	<u>\$ 46,190</u>

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE H - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2013</u>
Land Improvements	\$ 154,540	\$ 59,297	\$ --	\$ 213,837
Buildings	8,058,165	4,549,889	--	12,608,054
Fixed Equipment	657,721	33,400	4,241	686,880
Major Movable Equipment	<u>3,150,797</u>	<u>1,464,484</u>	<u>42,289</u>	<u>4,572,992</u>
	12,021,223	6,107,070	46,530	18,081,763
<u>Depreciation</u>				
Land Improvements	138,702	5,330	--	144,032
Buildings	3,551,996	423,145	--	3,975,141
Fixed Equipment	361,342	43,098	4,241	400,199
Major Movable Equipment	<u>2,379,534</u>	<u>423,660</u>	<u>42,289</u>	<u>2,760,905</u>
Total Depreciation	<u>6,431,574</u>	<u>895,233</u>	<u>46,530</u>	<u>7,280,277</u>
Depreciable Capital Assets, Net	<u>\$ 5,589,649</u>	<u>\$5,211,837</u>	<u>\$ --</u>	<u>\$ 10,801,486</u>
Non-Depreciable Capital Assets:				
Land	\$ 12,500	\$ --	\$ --	\$ 12,500
Construction in Progress	<u>1,450,112</u>	<u>3,414,167</u>	<u>4,864,279</u>	<u>--</u>
	<u>\$ 1,462,612</u>	<u>\$3,414,167</u>	<u>\$4,864,279</u>	<u>\$ 12,500</u>

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE I - NON-CURRENT LIABILITIES

A schedule of non-current liabilities for the years ended June 30, 2014 and 2013 follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2014</u>	<u>Current Portion</u>
Note B	\$ 102,856	\$ --	\$ 51,428	\$ 51,428	\$ 51,428
Note C	3,983,407	--	217,995	3,765,412	191,628
Note D	<u>360,000</u>	<u>--</u>	<u>47,143</u>	<u>312,857</u>	<u>51,429</u>
	<u>\$4,446,263</u>	<u>\$ --</u>	<u>\$ 316,566</u>	<u>\$4,129,697</u>	<u>\$ 294,485</u>
	<u>Balance 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2013</u>	<u>Current Portion</u>
Note A	\$ 156,687	\$ --	\$ 156,687	\$ --	\$ --
Note B	154,285	--	51,429	102,856	51,429
Note C	600,000	3,400,000	16,593	3,983,407	201,118
Note D	<u>--</u>	<u>360,000</u>	<u>--</u>	<u>360,000</u>	<u>51,429</u>
	<u>\$ 910,972</u>	<u>\$3,760,000</u>	<u>\$ 224,709</u>	<u>\$4,446,263</u>	<u>\$ 303,976</u>

Note A - The note was in the name of the City of Pocahontas through Citizens State Bank, Pocahontas Office. However, the Hospital was responsible for all loan principal and interest payments, therefore, the note payable had been recorded as a liability of the Hospital. Combined monthly principal and interest payments, required in the loan agreement, were \$28,323 and the interest rate was 5.25%. The final payment was scheduled to be paid in June, 2013, however, the Hospital had voluntarily begun to pay \$35,000 monthly, which resulted in an earlier completion date. The Hospital had pledged all of its assets and future revenues (net of certain expenses) to repay the note.

Note B - The City of Pocahontas obtained a \$360,000 Rural Economic Development Grant through the United States Department of Agriculture. The proceeds were then loaned to the Hospital to cover the cost of specified equipment items. The note with the City is non-interest bearing, however, interest has been imputed at a rate of 5.25%, and recorded as a donation on the Hospital's financial statements. Monthly principal payments of \$4,286 are being made to the City through July, 2015. The note is collateralized by the equipment purchased (with a net book value of \$60,278).

Note C - In April of 2012, the City of Pocahontas incurred a promissory note payable to a local bank, for up to \$4,000,000. The note was issued to pay for a renovation and expansion project. Although the debt is in the name of the City of Pocahontas, the Hospital is responsible for all loan principal and interest payments, therefore, as the funds were drawn, the note was being recorded as a liability on the Hospital's financial statements. As of June 30, 2013, all of the note proceeds had been drawn by the Hospital. Under terms of the note, monthly interest payments were due through May, 2013. Combined principal and interest payments are being made beginning in June, 2013 and ending in May, 2028. The interest rate on the note is 3.75%, with an adjustment based on the Wall Street Journal prime rate plus .50% after 5 years and 10 years. The note is collateralized by all assets and revenues of the Hospital.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE I - NON-CURRENT LIABILITIES - Continued

Note D - The City of Pocahontas obtained a \$360,000 Rural Economic Development Grant through the United States Department of Agriculture. The proceeds were then loaned to the Hospital to cover the cost of specified renovation and expansion costs. The note with the City is non-interest bearing, however, interest has been imputed at a rate of 3.75%, and recorded as a donation on the Hospital's financial statements. Monthly principal payments of \$4,286 are being made to the City through July, 2020. The note is collateralized by the Hospital revenues.

The annual debt service on the notes is expected to require approximately 57% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$476,800 and \$832,700 respectively.

Scheduled principal and interest payments on long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Long-Term Debt</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2015	\$ 294,485	\$ 128,396	\$ 422,881
2016	268,051	132,495	400,546
2017	276,793	123,753	400,546
2018	285,512	115,034	400,546
2019	294,569	105,977	400,546
2020 - 2024	1,415,281	381,733	1,797,014
2025 - 2028	1,295,006	102,411	1,397,417
	<u>\$ 4,129,697</u>	<u>\$ 1,089,799</u>	<u>\$ 5,219,496</u>

NOTE J - PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Regular plan members are required to contribute 5.95% of their annual salary and the Hospital is required to contribute 8.93% of annual covered payroll. Contribution rates are slightly higher when employees are performing emergency response services. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012, were approximately \$299,600, \$280,400, and \$254,500, respectively, equal to the required contributions for each year.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE K - AFFILIATED ORGANIZATION

Trinity Health Systems (Trinity)

The Hospital has an operating agreement with Trinity Health Systems. Under the agreement, the Hospital's Chief Executive Officer is an employee of Trinity and the Hospital reimburses Trinity for the cost of the Chief Executive Officer's salary and benefits. The Hospital also pays Trinity a monthly fee. Under the agreement, Trinity exercises joint authority over the Hospital's operations with the Hospital's board. Trinity consults and works with the Hospital's board in formulating management strategies and recommendations regarding operations. Below is a list of transactions between the Hospital and this affiliate for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Fees to Trinity for personnel and services	\$ <u>272,711</u>	\$ <u>266,007</u>

Pocahontas Community Healthcare Foundation (Foundation)

As indicated in Note A1, the Hospital works closely with the Foundation in its operations. Below is a list of transactions with the Foundation during the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Contributions received from Foundation:		
Restricted	\$ 12,265	\$ 21,036
Unrestricted	<u>28,904</u>	<u>24,614</u>
	\$ <u>41,169</u>	\$ <u>45,650</u>

NOTE L - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retirees must pay the full cost of the health insurance premium equal to that charged for current employees. There are 66 active employees and no retirees currently covered by the plan.

Funding Policy: The Hospital does not set aside funds to pay for any OPEB liability. Any Hospital costs of an implicit health insurance premium rate subsidy are charged to expense in the year paid.

Net OPEB Obligation: Management of the Hospital considers any OPEB obligation, which may exist, to be immaterial. Therefore the Hospital has elected to not obtain an actuarial evaluation of the OPEB liability.

Generally accepted accounting principles, established under GASB Statement No. 45, require that an actuarial or alternative computation of a liability be completed. The independent auditor's report regarding the financial statements has been qualified as a result of not obtaining the required evaluation and not recording any potential material OPEB liability.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE M - COMMITMENTS AND CONTINGENCIES

Rental Obligation

The Hospital has agreed to rent building space from the City of Pocahontas for approximately \$15,000 per year. This rented space is currently used for specialty clinic reception and for the home health/hospice offices.

Other Assets

The other assets represent funds advanced under agreements with healthcare professionals now practicing in the community. The agreements include commitments by the healthcare professionals to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the term of the commitments.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Pocahontas Community Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Subsequent Events

The Hospital has evaluated all subsequent events through August 13, 2014, the date the financial statements were available to be issued.

NOTE N - EFFECT OF ADOPTING NEW ACCOUNTING STANDARD

The Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34*, during the year ended June 30, 2014. The adoption of GASB Statement No. 61 resulted in reporting the Foundation as a discretely presented component unit rather than as a blended component unit of the Hospital as was previously recorded in the 2013 financial statements. Accordingly, amounts have been restated in the 2013 financial statements now presented.

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE N - EFFECT OF ADOPTING NEW ACCOUNTING STANDARD - Continued

The following is a summary of the effects of the restatements on the 2013 financial statements:

	<u>Amounts as Previously Reported</u>	<u>Change in Accounting Principle</u>	<u>Amounts as Restated</u>
<u>Hospital Statement of Net Position</u>			
Assets			
Restricted assets	\$ 102,026	\$(102,026)	\$ --
Total assets	\$ 14,629,008	\$(102,026)	\$ 14,526,982
Liabilities, Deferred Inflows of Resources, and Net Position			
Net position			
Restricted	\$ 102,026	\$(102,026)	\$ --
Total net position	\$ 8,557,146	\$(102,026)	\$ 8,455,120
Total liabilities, deferred inflows of resources, and net position	\$ 14,629,008	\$(102,026)	\$ 14,526,982
<u>Hospital Statement of Revenues, Expenses, and Changes in Net Position</u>			
Fiscal and administrative service expense	\$ 2,226,000	\$ 93,574	\$ 2,132,426
Operating loss	\$(144,316)	\$ 93,574	\$(50,742)
Non-operating revenues, net	147,710	(109,951)	37,759
Capital grants and contributions	10,383	10,653	21,036
Increase in net position	\$ 13,777	\$(5,724)	\$ 8,053
Net position end of year	\$ 8,543,369	\$ 88,249	\$ 8,455,120

POCAHONTAS COMMUNITY HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE N - EFFECT OF ADOPTING NEW ACCOUNTING STANDARD - Continued

	<u>Amounts as Previously Reported</u>	<u>Change in Accounting Principle</u>	<u>Amounts as Restated</u>
<u>Hospital Statement of Cash Flows</u>			
Net cash provided by operating activities	\$ 392,692	\$ 93,574	\$ 486,266
Net cash provided by non-capital financing activities	167,303	(109,705)	57,598
Net cash used in capital and related financing activities	(535,158)	10,653	(524,505)
Net cash provided by investing activities	<u>396,220</u>	<u>(65)</u>	<u>396,155</u>
Net increase in cash and cash equivalents	421,057	(5,543)	415,514
Cash and cash equivalents beginning of year	<u>758,619</u>	<u>(49,656)</u>	<u>708,963</u>
Cash and cash equivalents end of year	<u>\$ 1,179,676</u>	<u>\$ (55,199)</u>	<u>\$ 1,124,477</u>

* * *

REQUIRED SUPPLEMENTARY INFORMATION

POCAHONTAS COMMUNITY HOSPITAL
Budgetary Comparison Schedule
Year Ended June 30, 2014

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget which is filed with the City Clerk to be included in the official city budget. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

The following is a comparison of reported amounts to the accrual basis budget for the year ended June 30, 2014 (Hospital only, excluding Foundation).

	<u>Total Per Hospital Statements</u>	<u>Budget</u>	<u>Amount Under Budget</u>
Expenses	\$ 10,243,096	\$ 11,750,000	\$ 1,506,904

* * *

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees of
Pocahontas Community Hospital
Pocahontas, Iowa

We have audited the consolidated financial statements of Pocahontas Community Hospital as of and for the year ended June 30, 2014, and have issued our report thereon dated August 13, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Pocahontas Community Hospital is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Pocahontas Community Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Pocahontas Community Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees of
Pocahontas Community Hospital

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 14-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pocahontas Community Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the consolidated financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Responses to Findings

Pocahontas Community Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

Purpose of this Report

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Pocahontas Community Hospital and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Gronewold, Bell, Kylvann + Co. P.C.

Atlantic, Iowa
August 13, 2014

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings
Year ended June 30, 2014

PART I - SIGNIFICANT DEFICIENCIES

14-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. However, this situation is common in rural hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings - Continued
Year ended June 30, 2014

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

14-II-A Certified Budget: As a component unit of the City of Pocahontas, the Hospital is required to annually (in February) provide a copy of its summary budget to the City, to allow its inclusion in the official City budget documents. The Hospital complied with its requirement and provided a copy of its budget to the City by February, 2013.

Recommendation: We recommend that the Hospital continue to file its summary budget with the City of Pocahontas by February and retain documentation that it has done so.

Response: We will continue to meet our obligation of filing our original budget with the City in future years.

Conclusion: Response accepted.

14-II-B Questionable Expenditures: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expenditure was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Wild Rose	Employee Recognition Dinner	\$ 3,402

According to the opinion, it is possible for certain expenses to meet the test of serving a public purpose under certain circumstances, although such expenses will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation: We recommend that the Board continue to document the public purpose of expenditures for employee recognition dinners before authorization is given.

Response: The recognition dinner expenditure is considered part of the employee benefit package and the Board feels they meet the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

14-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings - Continued
Year ended June 30, 2014

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING -
Continued

14-II-D Business Transactions: Business transactions between the Hospital and Hospital officials and/or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Description</u>	<u>Amount</u>
Pocahontas Ford Gustave Holzmueller is the owner of the business, a City Council Member	Miscellaneous repairs	\$ <u>3,483</u>
Wood's Supermarket Kim Wood is a Board member and a part owner of the store	Grocery items	\$ <u>10,301</u>

The transactions with Pocahontas Ford and Wood's Supermarket both equal or exceed \$2,500, however, purchases from local businesses are necessary for the operation of the Hospital in Pocahontas, Iowa. The Board considered and approved the purchase of services, equipment, and supplies from these local merchants.

Recommendation: The Board should continue to monitor purchases from board member owned businesses and assure that conflicts of interest are limited to required transactions. Reasons for and approval of such transactions should be documented.

Response: The Board will continue to monitor and document reasons for and approval of transactions that appear to represent any conflict of interest.

Conclusion: Response accepted.

14-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

14-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

POCAHONTAS COMMUNITY HOSPITAL
Schedule of Findings - Continued
Year ended June 30, 2014

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING -
Continued

14-II-G Economic Development: During the year ended June 30, 2014, the Hospital paid \$500 to the Pocahontas County Economic Development Commission. The Hospital Board has documented the public benefits received from this expenditure, however, it is disclosed here for public information.

According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses the specific criteria to be considered in documenting public purpose.

Recommendation: The Board should continue to evaluate and document the public purpose served by these expenditures before authorizing further payments.

Response: We will continue to evaluate and document the public purpose in the future.

Conclusion: Response accepted.

* * *